

**CITY OF ROCK RAPIDS**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2011**



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## City of Rock Rapids

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Chase	Mayor	January 1, 2012
Marlene Bowers	Council Member	January 1, 2012
Heather Stubbe	Council Member	January 1, 2012
Joe Vander Zee	Council Member	January 1, 2012
Justin Christensen	Council Member	January 1, 2014
Cody Hoefert	Council Member	January 1, 2014
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Nancy DeJongh	Library Trustee	July 1, 2011
Carolyn Hein	Library Trustee	July 1, 2011
Ben Brink	Library Trustee	July 1, 2013
Dennis Haselhoff	Library Trustee	July 1, 2013
Jackie Austin	Library Trustee	July 1, 2015
Judy Gaspar	Library Trustee	July 1, 2015
Rhoda Lange	Library Trustee	July 1, 2015
Michael R. Austin	City Attorney	Indefinite (Appointed)



# **DE NOBLE & COMPANY PC**

Certified Public Accountants

## **MEMBERS**

111 S. Story Street  
Rock Rapids, IA 51246

American Institute - Certified Public Accountants  
Private Companies Practice Section  
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549  
Fax : (712) 472-2540  
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## **Independent Auditor's Report**

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Rock Rapids' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Rock Rapids, Iowa, as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012 on our consideration of the City of Rock Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting

or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information for the primary government on pages 5 through 10 and 26 through 28 are not required parts of the basic primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Rock Rapids' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the six fiscal years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that was formed directly from this dissolution) previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the two fiscal years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic primary government financial statements taken as a whole.

*De Noble & Company PC*

De Noble & Company PC  
Certified Public Accountants

June 28, 2012



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Rock Rapids provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 34.7%, or \$1,585,182, from fiscal 2010 to fiscal 2011. Charges for services decreased \$214,880; operating grants, contributions and restricted interest increased \$24,731; property and other city tax increased \$191,090; tax increment financing increased by \$53,518; and capital loan note proceeds decreased \$1,675,000; and other general revenues increased by \$26,796.
- Disbursements decreased 23.0%, or \$990,356, in fiscal year 2011 from fiscal year 2010. The largest decreases were in the Public Works, Debt Service and Capital Projects functions which decreased by \$220,197, \$383,598 and \$417,211 respectively.
- The City's total cash basis net assets from governmental activities decreased by 11.4%, or \$338,248, from June 30, 2010 to June 30, 2011. This decrease is due primarily to a decrease in capital loan note proceeds, in the amount of \$1,675,000, from fiscal year 2010. The fiscal year 2011 decrease compares to an increase of \$256,578 during the 2010 fiscal year.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets – Primary Government. This statement provides information about the activities of the City's primary government as a whole and presents an overall view of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. Fund financial statement reports the City's primary government operations in more detail than the government-wide statement by providing information about the most significant primary government funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds of the City's primary government.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-Wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Primary Government reports information which helps answer this question.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets – Primary Government consists only of governmental activities. Business type activities, consisting of electric, water, wastewater, gas and communications, are conducted by the Rock Rapids Municipal Utilities and reported separately. Business type activities are financed primarily by user charges. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities office. A copy of the Municipal Utilities' audit report is available for the public's review.

Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Program receipts; property taxes; tax increment financing; and local option sales taxes finance most of these activities.

### *Fund Financial Statements*

The primary government of the City of Rock Rapids uses governmental funds only. Proprietary funds are used to account for business type activities and, as noted above, are conducted by the Rock Rapids Municipal Utilities, which is reported separately.

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund; (2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment, Revolving Loan and Library Memorial Trust; (3) the Debt Service Fund; (4) the Capital Projects Fund; and (5) the Permanent Funds, such as Library Endowment and Cemetery Perpetual Care. The governmental funds primary government financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Primary Government.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for primary government governmental activities decreased from \$2,964,976 to \$2,626,728. The analysis that follows focuses on changes in cash basis net assets for governmental activities.

### Changes in Cash Basis of Net Assets of Governmental Activities

	Year Ending June 30,	
	2011	2010
Receipts:		
Program Receipts:		
Charges for Service	\$ 479,112	\$ 693,992
Operating Grants, Contributions and Restricted Interest	404,652	379,921
Capital Grants, Contributions and Restricted Interest	224,433	236,701
General Receipts:		
Property and Other City Tax	1,322,982	1,151,892
Tax Increment Financing	177,782	124,264
Local Option Sales Tax	184,523	177,948
Capital Loan Note Proceeds	0	1,675,000
Grants and Contributions Not Restricted		
To Specific Purpose	78,191	73,931
Unrestricted Investment Earnings	6,682	18,845
Rents	27,456	26,090
Revolving Loan Principal Payments	31,163	2,645
Sale of Assets	16,575	4,300
Other General Receipts	30,777	3,981
Total Receipts	2,984,328	4,569,510
Disbursements:		
Public Safety	329,798	275,426
Public Works	665,723	885,920
Culture and Recreation	507,794	592,245
Community and Economic Development	372,628	290,526
General Government	192,748	214,121
Debt Service	563,290	946,888
Capital Projects	690,595	1,107,806
Total Disbursements	3,322,576	4,312,932
Increase (Decrease) in Cash Basis Net Assets	( 338,248)	256,578
Cash Basis Net Assets Beginning of Year	2,964,976	2,708,398
Cash Basis Net Assets End of Year	\$ 2,626,728	\$ 2,964,976

The City's total receipts for governmental activities decreased by 34.7%, or \$1,585,182. The total cost of all programs and services decreased by \$990,356, or 23.0%. The decrease in receipts was mainly the result of the following: (1) a decrease in capital loan note proceeds for financing of a street construction project and for early retirement of two outstanding bond issues; and (2) a decrease in charges for services due to a reduction in collections of special assessments for street improvement projects. This decrease in comparison to the previous fiscal year was offset by increases in the following: (1) an increase in grants, contributions and restricted interest

due to receipt of USDA grants for purchase of fire equipment and economic development; to help fund a revolving loan program; and (2) an increase in property and other city taxes of \$171,090, due to an increase by approximately 11.6%, in the regular taxable valuation of property.

The cost of all governmental activities this year was \$3,322,576, compared to \$4,312,932 last year. The decrease in disbursements during the fiscal year was mainly due to the following: (1) a decrease in street construction projects and related costs (capital projects function); (2) a decrease in debt service disbursements (due to refinancing of callable debt during the previous year); (3) a decrease in land and equipment purchases (public works function); and (4) a decrease in park improvement costs (culture and recreation function). This decrease, in comparison to the previous year, was partially offset by the following: (1) an increase in purchases of fire equipment (public safety function); and (2) an increase in tax increment financing disbursements (community and economic development function).

The amount taxpayers ultimately financed for these activities was only \$2,214,379, because some of the cost was paid by those who directly benefited from the programs (\$479,112) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$629,085). The City paid for the remaining "public benefit" portion of governmental activities with other receipts such as property taxes, tax increment financing, local option sales tax, general entitlements, unrestricted investment earnings, rents, revolving loan principal payments, sale of assets and other miscellaneous revenues.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Rock Rapids completed the year, its primary government governmental funds reported a combined cash balance of \$2,626,728, a decrease of \$338,248 from last year's total of \$2,964,976. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$125,628, from \$665,660 to \$791,288 at June 30, 2011. This compares to a \$35,834 decrease in the prior fiscal year. Receipts and other financing sources decreased from the prior fiscal year by \$68,229. This decrease was mainly due to a decrease of \$131,927 in transfers in from the Local Option Sales Tax Fund as well as a decrease of \$41,368 in Iowa DOT grant funding for airport improvements. These decreases were partially offset by increases of \$45,000 in USDA grant funding for purchase of fire equipment and \$25,035 for hail damage reimbursement and \$16,575 for the sale of old fire equipment and some real estate. Disbursements and other financing uses decreased from the prior fiscal year by \$229,691 due to the following: a decrease of \$179,225 in the public works function due decreases for airport improvements and land purchase from the previous year; a decrease of \$81,599 in the culture and recreation function due to decreases for park and community center improvements from the previous year; a decrease of \$24,135 in the general government function mainly due to the purchase of computer software during the previous year. These decreases were partially offset by an increase in the public safety function by \$49,829 due to purchase of fire equipment this fiscal year.
- The Special Revenue Road Use Tax Fund cash balance decreased by \$89,710, from \$430,662 to \$340,952 at June 30, 2011. This compares to a \$140,494 decrease the prior fiscal year. The reduction in the decrease from the previous year is due primarily to a reduction in disbursements for capital equipment from the previous year receipts were consistent with the prior fiscal year.
- The Library Memorial Trust Fund increased by \$8,733 from \$331,626 to \$340,359 at June 30, 2011. This compares to a \$17,859 the prior fiscal year. The reduction in the increase is due to fewer donations received and a drop in interest earned.
- The Debt Service Fund cash balance increased by \$76,976, from \$82,487 to \$159,463, at June 30, 2011. This compares to an increase by \$39,001 during the prior fiscal year. There was a decrease in receipts from the prior year's general obligation capital loan notes proceeds of \$465,000 for the purpose of refinancing outstanding bonds were more than offset by increases in property and other city taxes and

special assessments of \$64,007 and \$51,298 respectively; also disbursements decreased mainly due to decreases in payments on long term debt principal by \$390,000 due to early debt retirement during the prior fiscal year.

- The Capital Projects Fund cash balance decreased \$518,327, from \$1,245,725 to \$727,398 at June 30, 2011. This compares to an increase of \$544,341 the prior fiscal year. Receipts and other financing sources decreased by \$1,479,879 mostly due to decreases of \$1,210,000 and \$295,534 for note proceeds and special assessment collections, respectively. Disbursements decreased by \$417,211 due to decreases in street and sewer construction project costs.

## BUDGETARY HIGHLIGHTS

The City did not amend its portion of the certified budget during the 2011 fiscal year.

Actual receipts came in \$258,642, or 8.0%, below budget for the City only portion of the certified budget. Miscellaneous receipts came in \$185,169 or 44.7%, below budget due primarily to budgeting high for reimbursements and donations. Intergovernmental receipts came in \$149,779, or 21.5%, below budget due primarily to having budgeted for total receipts for Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for receipts and disbursements, but never includes any actual figures.

Disbursements came in \$1,137,024, or 25.5%, below budget. All functions came in below budget for the City only portion of the certified budget. Disbursements for culture and recreation came in \$184,514, or 26.7%, below budget due primarily to budgeting for recreational projects that didn't get completed during the fiscal year. Disbursements for community and economic development came in \$205,793, or 365.6%, below budget due primarily to having budgeted for total disbursements for the Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for receipts and disbursements, but never includes any actual figures. Disbursements for capital projects came in \$515,405, or 42.7%, below budget due to delay in the start of construction of a storm water detention basin. The net cash change for the fiscal year came in \$894,957 better than budgeted for the City only portion of the certified budget.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$3,635,000 in notes, bonds and other long-term debt, compared to \$4,070,000 last year, as shown below:

<b>Outstanding Debt at Year-End</b>		
<u>TYPE OF DEBT</u>	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
General Obligation Capital Loan Notes	\$ 3,465,000	\$ 3,850,000
Grant Anticipation Capital Loan Notes	<u>170,000</u>	<u>220,000</u>
Total Long Term Debt	<u>\$ 3,635,000</u>	<u>\$ 4,070,000</u>

The City Council issued no additional debt during the 2011 fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to five percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding

general obligation debt of \$3,465,000 (total debt of \$3,635,000 minus grant anticipation notes of \$170,000) is adequately below its constitutional debt limit of \$6,033,493.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The elected and appointed officials and citizens of the City of Rock Rapids considered many factors when setting the fiscal year 2012 budget, tax rates and fees that will be charged for various City activities. Among these factors is the growing disparity between the tax obligations of residential and commercial/industrial property.

Under the rollback factor, residential property was taxed at 46.9% of actual value for the 2011 fiscal year and increases to 48.5%, for the 2012 fiscal year. Commercial and industrial property remains taxed at 100%, resulting in an ongoing disparity between the rates for commercial and industrial property, respectively and the rate for residential property.

The resulting disproportionate share of taxes levied on commercial and industrial property adds to the challenges of competing with bordering states in economic development activities. As a remedy, a freezing of the residential rollback factor, coupled with a decrease in the commercial/industrial rollback factor, would bring the latter closer to the rates applicable to residential property.

These indicators were taken into account when adopting the budget for fiscal year 2012. In recent years, the City has worked to control tax rates by implementing certain structural changes and greater reliance on alternate sources of revenue. While the regular tax rate will remain the same from fiscal year 2011 to 2012, the regular taxable valuation (excluding Ag Land) decreases by \$222,380, or 0.3%, resulting in a project decrease of \$3,877 in property and other city tax revenues (excluding Local Option Sales Taxes). This is offset by the actual increase of approximately \$171,000, or 14.9%, in property taxes collected for fiscal year 2011. Without including capital improvements, the 2012 fiscal year budget provides for a deficit of approximately \$55,000. However, this budget also allows the City to maintain an adequate cash reserve due to having accumulated surplus cash reserves in recent years.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jordan Kordahl, City Administrator, 310 South 3<sup>rd</sup> Avenue, Rock Rapids, Iowa 51246.

**City of Rock Rapids**  
**Basic Primary Government Financial Statements**

## City of Rock Rapids

Statement of Activities and Net Assets – Cash Basis  
Primary Government

As of and for the Year Ended June 30, 2011

		Program Receipts			Net (Disbursements)
					Receipts and Changes in
			Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Cash Basis Net Assets
Disbursements	Charges for Service	Interest	Interest		Governmental Activities
<b>Functions/Programs:</b>					
Governmental Activities:					
Public Safety	\$ 329,798	7,314	52,079	45,000	(225,405)
Public Works	665,723	253,090	247,196	0	(165,437)
Culture and Recreation	507,794	96,115	42,677	29,791	(339,211)
Community and Economic Development	372,628	4,977	38,208	0	(329,443)
General Government	192,748	31	23,078	0	(169,639)
Debt Service	563,290	61,107	1,414	74,052	(426,717)
Capital Projects	690,595	56,478	0	75,590	(558,527)
Total Governmental Activities	\$ 3,322,576	479,112	404,652	224,433	(2,214,379)



**General Receipts:**

Property and Other City Tax Levied for:	
General Purposes	618,830
Employee Benefits	200,459
Debt Service	503,693
Tax Increment Financing	177,782
Local Option Sales Tax	184,523
Grants and Contributions not Restricted to Specific Purpose	78,191
Unrestricted Interest on Investments	6,682
Rents	27,456
Perpetual Cemetery Care - Sale of Lots	5,700
Revolving Loan Principal Payments	31,163
Sale of Assets	16,575
Miscellaneous/Insurance Proceeds	25,077
	<hr/>
Total General Receipts	1,876,131
	<hr/>
Change in Cash Basis Net Assets	(338,248)
	<hr/>
Cash Basis Net Assets Beginning of Year	2,964,976
	<hr/>
Cash Basis Net Assets End of Year	<u><u>\$ 2,626,728</u></u>

**Cash Basis Net Assets**

## Restricted:

Nonexpendable - Library Endowment & Cemetery Perpetual Care	\$ 56,880
Expendable -	
Road Use Tax (Streets)	340,952
Library Projects	340,359
Debt Services	159,463
Capital Projects	727,398
Other Purposes	210,388
Unrestricted	791,288
	<hr/>
Total Cash Basis Net Assets	<u><u>\$ 2,626,728</u></u>

See Notes to Financial Statements.

## City of Rock Rapids

**Statement of Cash Receipts, Disbursements, and Changes in Cash Balances**  
**Governmental Funds**  
**Primary Government**

**As of and for the Year Ended June 30, 2011**

	General	Special Revenue		Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
		Road Use Tax	Library Memorial Trust				
Receipts:							
Property Tax	\$ 617,594	0	0	502,767	0	200,059	1,320,420
Tax Increment Financing	0	0	0	0	0	177,782	177,782
Other City Tax	1,236	0	0	926	0	184,923	187,085
Licenses and Permits	8,594	0	0	0	0	0	8,594
Use of Money and Property	29,332	4,806	5,159	1,414	7,042	2,490	50,243
Intergovernmental	205,174	247,196	0	0	68,548	25,500	546,418
Charges for Service	329,933	0	0	0	0	0	329,933
Special Assessments	0	775	0	61,107	56,478	0	118,360
Miscellaneous	110,867	2,089	4,151	74,052	0	37,759	228,918
Total Receipts	1,302,730	254,866	9,310	640,266	132,068	628,513	2,967,753
Disbursements:							
Operating:							
Public Safety	305,926	0	0	0	0	23,872	329,798
Public Works	277,504	330,882	0	0	0	57,337	665,723
Culture and Recreation	462,260	0	577	0	0	44,957	507,794
Community and Economic Development	137,578	0	0	0	0	235,050	372,628
General Government	160,409	0	0	0	0	32,339	192,748
Debt Service	0	0	0	563,290	0	0	563,290
Capital Projects	0	0	0	0	690,595	0	690,595
Total Disbursements	1,343,677	330,882	577	563,290	690,595	393,555	3,322,576

Excess (Deficiency) of Receipts Over (Under) Disbursements	(40,947)	(76,016)	8,733	76,976	(558,527)	234,958	(354,823)
Other Financing Sources (Uses):							
Sale of Capital Assets	16,575	0	0	0	0	0	16,575
Operating Transfers In	150,000	0	0	0	40,200	0	190,200
Operating Transfers Out	0	(13,694)	0	0	0	(176,506)	(190,200)
Total Other Financing Sources (Uses)	166,575	(13,694)	0	0	40,200	(176,506)	16,575
Net Change in Cash Balances	125,628	(89,710)	8,733	76,976	(518,327)	58,452	(338,248)
Cash Balances Beginning of Year	665,660	430,662	331,626	82,487	1,245,725	208,816	2,964,976
Cash Balances End of Year	\$ 791,288	340,952	340,359	159,463	727,398	267,268	2,626,728
<b>Cash Basis Fund Balances</b>							
Nonspendable - Library Endowment & Cemetary Perpetual Care	\$0	0	0	0	0	56,880	56,880
Restricted for:							
Road Use Tax (Streets)	0	340,952	0	0	0	0	340,952
Library Projects	0	0	340,359	0	0	0	340,359
Debt Service	0	0	0	159,463	0	0	159,463
Capital Projects	0	0	0	0	727,398	0	727,398
Other Purposes	0	0	0	0	0	210,388	210,388
Committed	49,903	0	0	0	0	0	49,903
Assigned	404,531	0	0	0	0	0	404,531
Unassigned	336,854	0	0	0	0	0	336,854
Total Cash Basis Fund Balances	\$ 791,288	340,952	340,359	159,463	727,398	267,268	2,626,728

See Notes to Financial Statements.

## City of Rock Rapids

### Notes to Primary Government Financial Statements

June 30, 2011

#### (1) Summary of Significant Accounting Policies

The City of Rock Rapids is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services.

##### A. Reporting Entity

For financial reporting purposes, the City of Rock Rapids has included all funds, organizations, agencies, boards, commissions, and authorities of the primary government. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Rock Rapids (the primary government). As noted in the Independent Auditor's Report, the component units discussed below are not included in the financial statements. The primary government financial statements, because they do not include the financial data of component units of the City of Rock Rapids, do not purport to, and do not present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2011, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described here in Note 1.

Component Units – If it were not for the City of Rock Rapids preparing financial statements of the primary government only, the Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be included as part of the City's reporting entity because of the significance of each organization's operational or financial relationship with the City. The Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be presented as discretely presented component units in a separate column in the Statement of Activities and Net Assets – Cash Basis to emphasize that each is legally separate from the City, but are financially accountable to the City, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council and the Municipal Utilities operating budget is approved by the City Council. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities' office. A copy of the Municipal Utilities' audit report is available for the public's review. The Rock Rapids Municipal Housing Agency is governed by a five-member board appointed by the Mayor and City Council and the City has the ability to impose its will on the Housing Agency by influencing the programs, projects, activities and level of services performed/provided by the Housing Agency. To obtain financial information on the Housing Agency, please contact the Chamber of Commerce/Municipal Housing office.

The City of Rock Rapids received \$178,700 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2011 (\$173,418 is intergovernmental receipts and \$5,280 is charges for service). Of the \$173,418 in intergovernmental receipts from the Rock Rapids Municipal Utilities, \$101,195 is donations,

\$3,675 is for the Utilities share of the joint residential housing demolition project, and \$68,548 is a reimbursement for the Utilities share of a construction contract. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,805 for garbage/recycling billing and collection services. The City of Rock Rapids received \$6,278 in intergovernmental receipts (payment in lieu of taxes) from the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2011. The City of Rock Rapids did not pay any money to the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2011.

Jointly Governed Organizations – The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lyon County Assessor's Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, the Northwest Iowa Regional Housing Authority and the Hazardous Material Response Commission (HAZMAT). During the fiscal year ended June 30, 2011, the City did not contribute any money to the Assessor, E911, Emergency Management, Economic Development Consortium, the Northwest Iowa Area Solid Waste Agency, the Northwest Iowa Regional Housing Authority or HAZMAT.

## B. Basis of Presentation

Government-Wide Financial Statement – The Statement of Activities and Net Assets – Primary Government reports information on all of the nonfiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. This financial statement reports governmental activities which are supported to a significant extent by tax and intergovernmental revenues.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government nonfiduciary net assets. Net assets are reported in the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds (the Library Endowment and Cemetery Perpetual Care Funds).

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation (Special Revenue Funds).

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified (General Fund).

The Statement of Activities and Net Assets – Primary Government demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statement – A separate financial statement is provided for the primary government governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Library Memorial Trust Fund is used to account for library projects financed by donations and investment income.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and grant anticipation long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and/or construction of major capital equipment and facilities for the City.

C. Measurement Focus and Basis of Accounting

The City of Rock Rapids maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact (the City's Permanent Funds).

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation (the City's Special Revenue, Debt Service and Capital Projects Funds).

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same action it employed to commit those amounts (General Fund – Library purposes).

Assigned – Amounts the Council intends to use for specific purposes (General Fund: Community Center purposes - \$27,180, Park improvement purposes - \$63,219, Fire department purposes - \$120,161, Airport purposes - \$183,971, and Trees purposes - \$10,000).

Unassigned – All amounts not included in other spendable classifications (portion of the General Fund).

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements for the City of Rock Rapids only portion of the budget did not exceed the amounts budgeted in any function at the end of the fiscal year.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) **Notes Receivable - Revolving Loan Fund**

The City established a Revolving Loan Fund for the purpose of lending monies for various economic development projects at a reasonable rate of interest to promote economic development within the City.

The notes issued are payable over ten years at 3.5% for the first five years and an adjustable rate for the last five years. The balances as of June 30, 2011 are computed as follows:

Balance on June 30, 2010	\$	47,355
New Notes Issued		60,000
Payments on Principal		( 31,163)
Balance on June 30, 2011	\$	<u>76,192</u>

The following are the scheduled amounts of notes receivable principal (net of allowance for doubtful accounts) coming due for the fiscal years ending:

June 30, 2012	\$	7,558
June 30, 2013		7,835
June 30, 2014		8,113
June 30, 2015		8,400
June 30, 2016		8,700
June 30, 2017 and After		<u>35,586</u>
	\$	<u>76,192</u>

Loans are carried as notes receivable until deemed uncollectible. As of June 30, 2011, no allowance for doubtful accounts has been recorded.

#### (4) Notes and Bonds Payable

Annual debt service/loan requirements to maturity for general obligation capital loan notes and grant anticipation capital loan notes are as follows:

Year Ended June 30	General Obligation Capital Loan Notes		Grant Anticipation Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	400,000	107,722	55,000	9,352	455,000	117,074
2013	410,000	99,217	55,000	6,355	465,000	105,572
2014	345,000	89,563	60,000	3,330	405,000	92,893
2015	355,000	79,965	0	0	355,000	79,965
2016	365,000	69,352	0	0	365,000	69,352
2017	375,000	57,373	0	0	375,000	57,373
2018	390,000	44,735	0	0	390,000	44,735
2019	405,000	30,805	0	0	405,000	30,805
2020	420,000	15,810	0	0	420,000	15,810
Total	\$3,465,000	594,542	170,000	19,037	3,635,000	613,579

During the fiscal year ended June 30, 2011, the City redeemed principal on long-term debt of \$435,000, paid \$126,940 in interest on the long-term debt and paid \$1,350 in note fees. The general obligation capital loan notes and grant anticipation capital loan were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2011.

The grant anticipation capital loan notes are to be repaid from an annual contribution in a minimum amount of \$65,000 to the City of Rock Rapids from the Trustees of the James W. and Ella B. Forster Charitable Trust.

#### (5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$32,253, \$29,743 and \$27,079, respectively, equal to the required contributions for each year.



**(6) Other Postemployment Benefits (OPEB)**

Plan Description. The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 9 active and no retired members participating in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross and Blue Shield of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$568 for single coverage and \$1,416 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$73,769 and plan members eligible for benefits contributed \$24,470 to the plan.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 44,129
Sick Leave	20,748
Total	<u>\$ 64,877</u>

All of an employee's vacation is paid upon retirement, termination or death. If an employee, except a Library employee, has ten or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. No sick leave is paid upon retirement, termination or death for Library employees. The amount of sick leave reported above only includes sick leave hours for employees that have attained the ten years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2011.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	<u>\$ 150,000</u>
Special Revenue: Capital Projects	Special Revenue: Road Use Tax	13,694
	Urban Renewal Tax Increment	<u>26,506</u>
		<u>40,200</u>
Total		<u>\$ 190,200</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are mainly covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Please see "Findings Related to the Primary Government Financial Statements: 11-G" in regards to "hangar keepers coverage" for the airport.

**(10) Employee Health Insurance Coverage**

The City of Rock Rapids provides group health insurance coverage for eligible employees through Wellmark Blue Cross and Blue Shield of Iowa. The City assumes liability for claims against the insurance deductible of up to \$250 under an individual policy and \$500 for a family policy. The City's expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate fund.

**(11) Intergovernmental Agreement**

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the City. There were no payments made during the fiscal year ended June 30, 2011.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post closure costs to the Agency have been estimated at \$2,105,115 as of June 30, 2011 and the portion of the liability that has been recognized by the Agency as of June 30, 2011 is \$1,198,296. The estimated remaining life of the landfill is 28 years and the capacity used at June 30, 2011 is approximately 57 percent. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2011, assets of \$1,481,831 are restricted for these purposes. The Agency has fully demonstrated financial assurance for closure and post closure case costs as required by Chapter 111 of the Iowa Administrative Code. No estimate has been made as to the possibility of any future assessments to the City.

**(12) Commitments**

In February 2010, the City approved continued funding to the Rock Rapids Development Corporation to be paid from the General Fund as follows: FY2011/2012-\$65,730 and FY2012/2013-\$70,730.

In March 2011, the City entered into a contract for street construction. As of June 30, 2011 the construction was still in process. The total contract amount was \$203,902. During the year ended June 30, 2011, \$51,828 was paid to the contractor, and \$152,074 was the remaining contract outstanding. (See "Subsequent Events" below)

In June 2011, the City entered into a contract for \$3,190 for painting of the swimming pool. As of June 30, 2011, the construction was still in process and the entire contract balance was outstanding. The project was finalized in fiscal year 2012.

In June 2011, the City entered into a contract for \$9,625 for building improvements. As of June 30, 2011, the construction was still in process and the entire contract balance was outstanding. The project was finalized in fiscal year 2012.

In March 2011, the City approved a loan from the Revolving Loan Fund for \$20,000, payable over 10 years at 3.5% for the first 5 years and an adjustable rate for the last 5 years.

**(15) Subsequent Events**

Events that have occurred subsequent to June 30, 2011 until the date of the audit report include the following:

- a. In July 2011, the City accepted a bid for the construction of the Union Street Detention Basin project. The contract amount of \$139,544 (includes a subsequent change order to decrease the contract by \$43) to be paid from the Capital Projects Fund (through June 30, 2012, \$135,017 had been paid on the contract).
- b. In September and October 2011, the City approved change orders to the contract for street improvements netting to an increase of \$28,724 (total contract increased to \$232,626). From July through October 2011, payments were made from the Capital Projects Fund under the contract totaling \$180,798. (See above "Commitments")
- c. In July 2011, the City was awarded funding by the Iowa Transportation Commission for a grant award of 85% of eligible costs up to a maximum state share of \$78,200 for an airport improvements project. The project has been completed and payment of \$75,667 was paid from the Capital Projects Fund. The City will be reimbursed by the IDOT for \$64,317 under the grant agreement.
- d. In December 2011, the City authorized a loan from the Revolving Loan Fund in the amount of \$20,000 payable over 10 years at 3.5% for the first five years and an adjustable rate for the last five years.
- e. In January 2012, the City authorized a loan from the Revolving Loan Fund in the amount of \$20,000 payable over 10 years at 3.5% for the first five years and an adjustable rate for the last five years.
- f. In March 2012, the City authorized a loan from the Revolving Loan Fund in the amount of \$20,000 payable over 10 years at 3.5% for the first five years and an adjustable rate for the last five years.
- g. In March 2012, the City approved a construction contract for the Greene Street Utility Extension Project for \$77,832.40. In June 2012, a payment of \$54,569 was made from the Capital Projects Fund for work in process completed on this project.
- h. In April 2012, the City approved a loan agreement and issuance of \$600,000 in General Obligation Capital Loan Notes and a levy of tax to pay for the notes to be used for construction purposes. Interest ranging from 2.0% to 2.35% is due semiannually; principal is due in annual installments of \$200,000 beginning June 1, 2021.
- i. In April 2012, the City approved a loan agreement and issuance of \$1,460,000 in General Obligation Refunding Capital Loan Notes and a levy of tax to pay for the notes to be used to refinance the \$1,390,000 General Obligation Capital Loan Notes dated June 1, 2008. Interest ranging from 0.80% to 1.80% is due semiannually; principal is due in annual installments beginning June 1, 2015.
- j. In May 2012, the City approved a contract for a sound/video system upgrade for the Forster Community Center for \$42,749.



**City of Rock Rapids**  
**Required Supplementary Information**

**City of Rock Rapids**

**Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds  
Primary Government**

**Required Supplementary Information**

**Year Ended June 30, 2011**

	Governmental Funds Actual	Governmental Funds Budgeted	Budget to Actual Variance
Receipts:			
Property Tax	\$ 1,320,420	1,315,429	4,991
Tax Increment Financing	177,782	121,543	56,239
Other City Tax	187,085	173,411	13,674
Licenses and Permits	8,594	10,500	( 1,906)
Use of Money and Property	50,243	105,513	( 55,270)
Intergovernmental	546,418	696,197	( 149,779)
Charges for Service	329,933	284,715	45,218
Special Assessments	118,360	105,000	13,360
Miscellaneous	228,918	414,087	( 185,169)
Total Receipts	<u>2,967,753</u>	<u>3,226,395</u>	<u>( 258,642)</u>
Disbursements:			
Public Safety	329,798	407,023	77,225
Public Works	665,723	782,052	116,329
Health and Social Services	0	1,000	1,000
Culture and Recreation	507,794	692,308	184,514
Community and Economic Development	372,628	578,421	205,793
General Government	192,748	228,567	35,819
Debt Service	563,290	564,229	939
Capital Projects	690,595	1,206,000	515,405
Total Disbursements	<u>3,322,576</u>	<u>4,459,600</u>	<u>1,137,024</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	( 354,823)	( 1,233,205)	878,382
Other Financing Sources, Net	<u>16,575</u>	<u>0</u>	<u>16,575</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	( 338,248)	( 1,233,205)	894,957
Balances Beginning of Year	<u>2,964,976</u>	<u>2,803,499</u>	<u>161,477</u>
Balances End of Year	<u>\$ 2,626,728</u>	<u>1,570,294</u>	<u>1,056,434</u>

**City of Rock Rapids**

**Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances–  
Budget and Actual (Cash Basis) – All Governmental Funds  
Primary Government**

**Required Supplementary Information**

**Year Ended June 30, 2011**

- Note: These figures do not reflect amounts included in the City's legally adopted budget for the Rock Rapids Municipal Utilities, which is a component unit that was audited separately. The amounts that were removed for the Rock Rapids Municipal Utilities from the original budget included \$4,505,358 in receipts (charges for service), \$4,468,281 in disbursements (business type activities), balance beginning of year of \$5,614,332 and balance end of year of \$5,651,409. Neither the City of Rock Rapids portion nor the Rock Rapids Municipal Utilities portion of the budget was amended from the original adopted budget during the fiscal year ended June 30, 2011.

## **City of Rock Rapids**

### **Notes to Required Supplementary Information – Budgetary Reporting**

**June 30, 2011**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds (which there are none) for the City of Rock Rapids. The City's adopted budget includes the Rock Rapids Municipal Utilities, which is a legally separate component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year there were no budget amendments.

The Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government does not reflect the amounts included in the City's budget for the Rock Rapids Municipal Utilities. Please see the Rock Rapids Municipal Utilities audit report for information concerning budget to actual figures for the Municipal Utilities.

During the year ended June 30, 2011, disbursements did not exceed the final amended budget amount for any function of the City only portion of the certified budget. However, disbursements in the community and economic development function, which are included for the Rock Rapids Municipal Utilities, exceeded the amount budgeted as part of the City of Rock Rapids' adopted budget (even though the combined total for the community and economic development function was not exceeded).



**City of Rock Rapids**  
**Other Supplementary Information**

**City of Rock Rapids**

**Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds  
Primary Government**

**As of and for the Year Ended June 30, 2011**

	Special Revenue			
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment	Revolving Loan Fund
<b>Receipts:</b>				
Property Tax	\$ 200,059	0	0	0
Tax Increment Financing	0	0	177,782	0
Other City Tax	400	184,523	0	0
Use of Money and Property	0	0	0	2,490
Intergovernmental	0	0	0	25,500
Miscellaneous	0	0	0	32,059
Total Receipts	200,459	184,523	177,782	60,049
<b>Disbursements:</b>				
Operating:				
Public Safety	23,872	0	0	0
Public Works	57,337	0	0	0
Culture and Recreation	44,957	0	0	0
Community and Economic Development	7,879	0	166,577	60,594
General Government	32,339	0	0	0
Total Disbursements	166,384	0	166,577	60,594
Excess (Deficiency) of Receipts Over (Under) Disbursements	34,075	184,523	11,205	(545)
Other Financing Uses:				
Operating Transfers Out	0	(150,000)	(26,506)	0
Net Change in Cash Balances	34,075	34,523	(15,301)	(545)
Cash Balances Beginning of Year	49,747	0	26,238	81,651
Cash Balances End of Year	\$ 83,822	34,523	10,937	81,106
<b>Cash Basis Fund Balances</b>				
Nonspendable: Library Endowment & Cemetery Perpetual Care	\$ 0	0	0	0
Restricted for:				
Other purposes	83,822	34,523	10,937	81,106
Total Cash Basis Fund Balances	\$ 83,822	34,523	10,937	81,106

See Accompanying Independent Auditor's Report.

Permanent		
Library Endowment	Cemetery Perpetual Care	Total
0	0	200,059
0	0	177,782
0	0	184,923
0	0	2,490
0	0	25,500
0	5,700	37,759
0	5,700	628,513
0	0	23,872
0	0	57,337
0	0	44,957
0	0	235,050
0	0	32,339
0	0	393,555
0	5,700	234,958
0	0	(176,506)
0	5,700	58,452
2,000	49,180	208,816
2,000	54,880	267,268
2,000	54,880	56,880
0	0	210,388
2,000	54,880	267,268

## City of Rock Rapids

## Statement of Indebtedness – Primary Government

Year Ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes:									
Street Improvements	May 1, 2008	2.90-4.00%	2,550,000	\$ 2,175,000	0	185,000	1,990,000	77,188	0
Street Improvements	June 1, 2010	0.90-3.40%	1,675,000	1,675,000	0	200,000	1,475,000	37,700	0
Total				\$ 3,850,000	0	385,000	3,465,000	114,888	0
Grant Anticipation Capital Loan Notes:									
Forster Community Building	June 1, 1998	5.40-5.55%	\$ 670,000	\$ 220,000	0	50,000	170,000	12,052	0

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

## Bond and Note Maturities – Primary Government

June 30, 2011

General Obligation Capital Loan Notes					
Year Ending June 30,	Street Improvements Issued June 1, 2011		Street Improvements Issued May 1, 2008		Total
	Interest Rates	Amounts	Interest Rates	Amounts	
2012	1.20%	\$ 205,000	3.10%	\$ 195,000	\$ 400,000
2013	1.55%	210,000	3.20%	200,000	410,000
2014	1.95%	140,000	3.35%	205,000	345,000
2015	2.25%	145,000	3.50%	210,000	355,000
2016	2.80%	145,000	3.60%	220,000	365,000
2017	2.80%	150,000	3.75%	225,000	375,000
2018	3.15%	155,000	3.85%	235,000	390,000
2019	3.40%	160,000	3.90%	245,000	405,000
2020	3.40%	165,000	4.00%	255,000	420,000
		<u>\$ 1,475,000</u>		<u>\$ 1,990,000</u>	<u>\$ 3,465,000</u>

Grant Anticipation Capital Loan Notes		
Forster Community Building		
Issued June 1, 1998		
Year Ending June 30,	Interest Rates	Amounts
2012	5.45%	\$ 55,000
2013	5.50%	55,000
2014	5.55%	60,000
	Total	<u>\$ 170,000</u>

See Accompanying Independent Auditor's Report.

**City of Rock Rapids**  
**Schedule of Receipts by Source and Disbursements by Function –**  
**All Governmental Funds**  
**Primary Government**  
**For the Last Nine Years**

	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Receipts:</b>									
Property Tax	\$ 1,320,420	1,148,455	1,243,128	1,204,514	1,281,476	1,143,078	1,181,996	1,188,762	1,004,626
Tax Increment Financing	177,782	124,264	116,926	106,300	97,323	58,816	65,530	59,727	25
Other City Tax	187,085	181,385	181,954	172,028	177,454	150,698	149,617	136,968	139,648
Licenses and Permits	8,594	7,354	10,424	10,685	10,183	10,309	10,032	7,618	7,680
Use of Money and Property	50,243	67,890	106,550	94,146	128,669	85,901	44,256	34,184	38,059
Intergovernmental*	546,418	518,490	854,690	454,564	569,711	631,132	502,983	722,305	559,510
Charges for Service	329,933	300,259	302,792	286,158	279,477	257,502	252,326	243,203	223,498
Special Assessments	118,360	361,821	26,282	3,292	4,565	3,414	3,915	25,120	107,964
Miscellaneous	228,918	184,592	114,904	142,721	153,097	277,009	123,193	185,300	136,677
<b>Total Receipts</b>	<b>\$ 2,967,753</b>	<b>2,894,510</b>	<b>2,957,650</b>	<b>2,474,408</b>	<b>2,701,955</b>	<b>2,617,859</b>	<b>2,333,848</b>	<b>2,603,187</b>	<b>2,217,687</b>
<b>Disbursements:</b>									
<b>Operating:</b>									
Public Safety	\$ 329,798	275,426	462,199	237,072	208,849	205,274	250,076	242,243	224,089
Public Works	665,723	885,920	499,689	602,819	461,370	507,579	449,503	601,982	412,233
Culture and Recreation	507,794	592,245	461,023	489,112	512,154	515,733	472,025	384,414	336,579
Community and Economic Development	372,628	290,526	252,009	224,259	210,810	332,804	239,382	370,103	58,903
General Government**	192,748	214,121	176,716	170,643	163,409	153,684	152,184	206,552	559,428
Debt Service	563,290	946,888	899,413	840,100	606,850	538,022	483,111	515,759	1,046,698
Capital Projects	690,595	1,107,806	1,952,377	432,012	577,829	61,206	183,434	95,876	616,287
<b>Total Disbursements</b>	<b>\$ 3,322,576</b>	<b>4,312,932</b>	<b>4,703,426</b>	<b>2,996,017</b>	<b>2,741,271</b>	<b>2,314,302</b>	<b>2,229,715</b>	<b>2,416,929</b>	<b>3,254,217</b>

\*Intergovernmental includes a \$100,000 donation in both 2007 and 2003 from the Rock Rapids Municipal Utilities that were reported as "special items".

\*\*General government includes a \$277,300 donation in 2003 to the Rock Rapids Municipal Utilities that was reported as a "special item".

See Accompanying Independent Auditor's Report.

**City of Rock Rapids**

**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***





# **DE NOBLE & COMPANY PC**

Certified Public Accountants

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### **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic primary government financial statements listed in the table of contents, and have issued our report thereon dated June 28, 2012. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with another comprehensive basis of accounting. However, the financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2011, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Rock Rapids' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 11-A, B, E, F, G, I, L and M to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 11-C, D, H, J and K to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rock Rapids' primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Rock Rapids' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Rock Rapids' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rock Rapids, Iowa and other parties to whom the City of Rock Rapids may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rock Rapids during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*De Noble & Company PC*

De Noble & Company PC  
Certified Public Accountants

June 28, 2012

**City of Rock Rapids**

**Schedule of Findings**

**Year Ended June 30, 2011**

**Findings Related to the Primary Government Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

11-A      Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person could be used to regularly approve time sheets, check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, periodically examine investments, review invoices and review the financial records.

Response – We will continue to investigate the options we have within economic constraints and segregate duties to the extent possible with existing personnel. We have made arrangements to utilize the Rock Rapids Municipal Utilities personnel to prepare the bank reconciliations for our accounts.

Conclusion – Response accepted. It is important that you continue to attempt to implement these recommendations.

11-B      Records of Accounts – The Library Board maintains the accounting records pertaining to the operations of the Library. These transactions are not recorded in complete detail in the Clerk's records (only the totals for the fiscal year are entered in the Clerk's records). Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, all financial activity of all City accounts should be recorded in the Clerk's records.

Response – The financial activity and balances of the Library are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library Board has an individual who is willing and able to provide her services for no additional remuneration, the City Clerk will continue to review the Library Board's reports that are provided on a monthly basis as a form of control and enter the fiscal year totals in the Clerk's records.

Conclusion – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

11-C      Capital Assets/Inventory Records – A complete record of capital assets/inventory is not maintained. Capital assets are not all marked for identification purposes.

**City of Rock Rapids**

**Schedule of Findings**

**Year Ended June 30, 2011**

Recommendation – To facilitate the proper insurance, maintenance and safeguarding of these assets, such records should be established. A reconciliation of all property, equipment and inventory should be taken by an independent person at least once a year and compared against capital assets/inventory records. Capital assets should be marked for identification purposes to assist in the existence and accountability functions.

Response – The administrative office and public works department have compiled a complete record of mobile equipment assets and are continuing to work toward compiling a complete record of all capital assets.

Conclusion – Response accepted. Please continue to make an effort to develop inventory/capital assets records, perform an annual independent verification of existence and work on marking capital assets for identification purposes.

11-D Off-Site Storage of Manual Records – There may be some benefit to having some of the manual records duplicated and the copies stored at an off-site location.

Recommendation – Sensitive manual records should be evaluated for needed protection and stored at an off-site location.

Response – We will continue evaluating the manual records for what may need to be stored off-site.

Conclusion – Response accepted. Please do attempt to evaluate the manual records.

11-E Payroll Time Sheets/Time Cards – Payroll time sheets/time cards are not always being signed/initialed by the employee. Additionally, the employee's direct supervisor should be signing the time sheets/time cards as indication that the time sheet/time card has been formally approved.

Recommendation – The City should consider the need to require all City personnel to sign their daily time sheets or time cards. All City time cards/sheets should have signature lines for the employee and the employee's direct supervisor that should be required to be completed before payroll is paid in order to attest to the accuracy of hours worked.

Response – Procedures have subsequently been established to require that time sheets and time cards are formally approved and signed by the employee's supervisor during payroll processing.

Conclusion – Response accepted. Please make sure the procedures are followed by all personnel.

**City of Rock Rapids**

**Schedule of Findings**

**Year Ended June 30, 2011**

- 11-F      Job Rotations – Financial personnel’s duties are not always rotated for a period of time each fiscal year.
- Recommendation – The City should consider the need for financial personnel (including the Library) to annually take a minimum amount of vacation time and each person’s duties should be done by another employee when a person is on vacation. The City needs to have individuals who are trained in an employee’s position in case of an emergency to provide backup support.
- Response – We will continue to work toward being able to rotate duties within economic constraints. We attempt to minimize any potential problems in this area through supervisory review of job duties.
- Conclusion – Response acknowledged. Please attempt to rotate financial personnel’s duties on a regular basis. Please make sure the Library addresses this also.
- 11-G      Insurance Policy – The City has received a recommendation from its insurance provider to require “hangarkeepers coverage” in the airport’s fixed base operator lease. This is a separate policy that covers the aircraft that is being serviced or repaired by the lessee, as this is not covered by the general liability policy.
- Recommendation – The City should consider the need to require an adequate amount of “hangarkeepers coverage” in its airport operator lease.
- Response – The City will continue to evaluate the necessity to require “hangarkeepers coverage” in the airport’s fixed base operator lease.
- Conclusion – Response accepted. Please make sure your City Attorney and insurance agent are in agreement that the City has adequate coverage based on the risk the City is willing to accept.
- 11-H      Accounting Procedures Manual – The City Library does not have an updated accounting procedures manual for the Library’s accounting system.
- Recommendation – An updated accounting procedures manual should be prepared, adopted by the Library Board and implemented for the Library’s accounting system.
- Response – We will work on updating the Library’s accounting procedures manual.
- Conclusion – Response accepted.
- 11-I      Management Procedures – Based on findings during the audit, we identified that there appears to be a lack of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.
- Recommendation – City management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis.

**City of Rock Rapids**

**Schedule of Findings**

**Year Ended June 30, 2011**

City management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.

Response – The City expects to completely resolve items 11-E, 11-J, 11-K, 11-L, 11-6, 11-8, 11-9, 11-10 and 11-11. We will continue to work on the other comments/recommendations within time constraints.

Conclusion – Response accepted.

- 11-J Amortization of Interest on Notes Receivable– During the year, there were payments received in the Revolving Loan Fund for a note receivable which were in excess of the scheduled monthly payments as determined by the terms of the note receivable. However, the payments were amortized based on the original amortization schedule, resulting in an incorrect accounting between principal and interest received.

Recommendation – The City should implement procedures to ensure that payments received on notes receivable are amortized between interest and principal based on the actual day received. Additionally, the amortization schedules for notes receivables should be adjusted accordingly for payments received in excess of the monthly scheduled amount.

Response – We will implement your recommendation.

Conclusion – Response accepted.

- 11-K Accumulated Compensated Absences Pay – We noted an instance where an employee was paid the wrong amount of accumulated compensated absences pay due to an error in the calculation of the number of hours the employee had accrued.

Recommendation – The City should implement procedures to ensure that accrued compensated absences are calculated properly.

Response – We will implement your recommendation.

Conclusion – Response accepted.

- 11-L Bank Signature Cards – The authorized bank account signers' list for the airport checking account still includes airport advisory board members who no longer have any authority to instigate any financial transactions.

Recommendation – The City needs to remove the unauthorized airport advisory board members from the airports bank account signers' list. Procedures need to be established to ensure that

**City of Rock Rapids**

**Schedule of Findings**

**Year Ended June 30, 2011**

individuals who are no longer authorized to make financial transactions are immediately removed from all authorized signers' lists.

Response – We have updated the signature cards to remove these individuals.

Conclusion – Response accepted.

11-M On-Line Banking Procedures – The City does not have procedures in place to review on-line banking activity regularly. The UCC provides that businesses have two days to detect a fraudulent bank transaction in order for the financial institution to be responsible for the transaction.

Recommendation – The City should implement procedures to review their online banking account frequently in order to ensure fraudulent activity would be detected and reported within the allotted timeframe provided by the UCC.

Response – We will implement procedures to review on-line banking activity on a regular timely basis.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**City of Rock Rapids**

**Schedule of Findings**

**Year Ended June 30, 2011**

**Other Findings Related to Required Statutory Reporting:**

- 11-1      Certified Budget – Disbursements during the fiscal year ended June 30, 2011 did not exceed the amount budgeted in any of the functions for the City of Rock Rapids only portion of the certified budget. However, although the combined legal budget for the City of Rock Rapids was not exceeded in the community and economic development function, disbursements in the community and economic development function for the Utilities only portion of this adopted budget, which are included for the Rock Rapids Municipal Utilities, exceeded the amount budgeted as part of the City of Rock Rapids' adopted budget. Please see the Rock Rapids Municipal Utilities audit report for the reportable comment made concerning this deemed certified budget non-compliance.
- 11-2      Questionable Expenses – We noted no disbursements which we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 11-3      Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 11-4      Business Transactions – No business transactions between the City and City officials or employees were noted.
- 11-5      Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 11-6      Council and Board Minutes – No transactions were found that we believe should have been approved in the Council or Library minutes but were not. However, per the Iowa Code Chapter 372.12(6), the City is required to provide public notice for all committee and advisory board meetings. It was noted that the City does not provide public notice for all committee and advisory board meetings.
- Recommendation – The City should timely post public notice in a public place for all committee and advisory board meetings.
- Response – We will post public notice for all committee and advisory board meetings in accordance with the Code of Iowa. We will work toward ensuring that all open meeting requirements are met.
- Conclusion – Response accepted.
- 11-7      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's written investment policy were noted.



## City of Rock Rapids

### Schedule of Findings

Year Ended June 30, 2011

- 11-8 Internal Revenue Service Reporting Compliance – The City Council authorized gift certificates to employees and properly documented public purpose for the disbursement. However, the City treated these payments as non-taxable to employees, when in actuality, these are taxable earnings to the employees per Internal Revenue Code regulations.
- Recommendation – The City should follow Internal Revenue Code regulations by properly reporting gift certificates issued to employees as taxable earnings to the employees. The City should amend prior tax reports and forms that were filed improperly.
- Response – We will implement procedures to ensure gift certificates issued to employees are reported as taxable.
- Conclusion – Response accepted.
- 11-9 Compilation of Ordinances – In accordance with Chapter 380.8 of the Code of Iowa, the City must at least annually compile a supplement to the Code of Ordinances consisting of all new ordinances and amendments to ordinances which became effective during the fiscal year. We noted that the supplement to the Code of Ordinances did not include all ordinances adopted in fiscal year 2010/2011 and that the table of contents was not updated.
- Recommendation – The County should update the supplement to the Code of Ordinances annually as required by Chapter 380.8 of the Code of Iowa.
- Response – We will update the supplement to the code of ordinances and make sure the compilation of ordinances gets done timely in the future.
- Conclusion – Response accepted.
- 11-10 Elected Officials Retirement Plan Coverage – Under the Social Security Act and Section 218 of an Agreement between the State of Iowa and the Social Security Administration, if a part-time elected official's wages are covered by IPERS, then that person's wages cannot also be covered under Social Security. We noted two officials who were contributing to both Social Security and IPERS and the City was providing matching funds for both retirement plans.
- Recommendation – The City should implement procedures to ensure that elected officials are only contributing to either IPERS or Social Security, but not both. Additionally, the City needs to make adjustments for all previously reported Social Security contributions for these employees.
- Response – We will implement the recommendation.
- Conclusion – Response accepted.

**City of Rock Rapids**

**Schedule of Findings**

**Year Ended June 30, 2011**

11-11 Investment Policy – The City's investment policy has not been reviewed and approved by the Council in the last three years as required by the policy.

Recommendation – The City needs to review and approve the investment policy. Additionally, procedures should be put in place to ensure that the policy is reviewed and approved by the Council at least every three years.

Response – We will implement this recommendation.

Conclusion – Response accepted.

**City of Rock Rapids**

Staff

This audit was performed by:

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